Car shopping (and the reality of finances)

These are the questions I want you to be able to answer by the end of this project.

**Why** do most financial experts advise consumers to take car loans of 4 years or less?

**Why** do people take out loans for longer than 5 years and what can happen?

About what % of a car's value should you put down and **why**?

At my first job, I brought home approximately $23,000. Suppose my typical month of bills was $900, what advice would you give me if I wanted to buy a new car?

For this project, I will “interview” you for 5-10 minutes. You need to take enough notes so that you'll be able to tell me what you learned. Take notes, screen shots, etc. so that you can reference them.

1. Read [http://www.bankrate.com/finance/auto/the-price-of-long-auto-loans.aspx](http://www.bankrate.com/finance/auto/the-price-of-long-auto-loans.aspx" \t "_blank). What does it mean to be "upside down" in a loan?

2. Find a new car and use [http://www.money-zine.com/Calculators/Auto-Loan-Calculators/Car-Depreciation-Calculator/](http://www.money-zine.com/Calculators/Auto-Loan-Calculators/Car-Depreciation-Calculator/" \t "_blank) to figure out what value of car will be in 2 years. [Remember that you put in 0 for current age.] Use the average depreciation amount.

3. Go to loan amortization sheet. (I will need to show you which download button to hit. You will then have to go to your downloads to find it.)

<http://download.cnet.com/Amortization-Schedule-for-Excel/3000-2057_4-10902935.html>

If that link doesn’t work, try http://www.amortization-calc.com/

Use 5.25% as the APR and 1/1/15 as the start date.

Compare total payment of loans for 3, 4, 5, 6, and 7 years. What happens to the total amount you have to pay? Why?

**4. Compare your car value at 2 years to each of these loan values. What do you notice?**

5. Read [http://www.lendingtree.com/auto-loans/advice/buying-a-new-car/how-much-to-put-down-on-a-car/](http://www.lendingtree.com/auto-loans/advice/buying-a-new-car/how-much-to-put-down-on-a-car/" \t "_blank).

Now go back to the loan amortization sheet and put $5,000 down in the first payment. (If you bought an expensive car, see me. I may tell you to put more than $5,000 down.) Now what do you notice? According to this article, can you be "upside down" in a loan even if you take out a 3-year loan?

Interview time: You will be graded on your answers to questions that are similar to the ones found throughout this document. I will ask you to relate it to exponential growth, compound interest, and other topics we have studied in this chapter. Come prepared!